



Internal Audit Report

Maricopa County Treasurer's Office
July 2002



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Don Stapley, Chairman, Board of Supervisors
Fulton Brock, Supervisor, District I
Andrew Kunasek, Supervisor, District III
Max S. Wilson, Supervisor, District IV
Mary Rose Wilcox, Supervisor, District V

We have completed our FY 2002 review of the Maricopa County Treasurer's Office. This audit was conducted in accordance with the Board approved audit plan. Our review focused primarily on the office's controls over tax apportionment, tax roll data, investments, wire transfers, and information systems.

Overall, we found that the Treasurer's Office effectively manages assets under its control. We also found areas needing improvement. These, along with our recommendations, are detailed in the attached report. The highlights are:

- The Treasurer's Office effectively and accurately apportions collected taxes. However, internal controls could be improved with the addition of certain detailed procedures.
- Review of Treasurer's Office wire transfers found that general controls are adequate. However, the office has not documented its wire transfer procedures.
- The Treasurer Office Information Technology Division's controls appear to be adequate overall. However, some specific controls do not fully protect systems and data from unauthorized changes or destruction.

We have attached our report package and Treasurer's Office response, which we have reviewed with the Treasurer's Office management. We appreciate their excellent cooperation. If you have questions or wish to discuss items presented in this report, please contact Joe Seratte at 506-6092.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

Table of Contents

Executive Summary	1
Introduction	2
Office Accomplishments	5
Detailed Information	6
Office Response	12

Executive Summary

Tax Apportionment Payments Page 6

Our review of \$870 million (64%) apportioned by the Treasurer's Office during tax year 2001 found that the office accurately apportions collected taxes and, overall, employs effective controls over the apportionment process. We also believe that apportionment controls would be improved with the addition of certain detailed procedures. The Treasurer's Office should expand existing internal policies and procedures.

Investments Page 7

Our review of \$845 million of Treasurer's Office investments found that the office invests public funds only in instruments that are authorized by Arizona Revised Statutes mandates. No exceptions were found.

Wire Transfers Page 8

Our review of 30 Treasurer's Office wire transfers totaling \$197 million found that general controls are adequate. However, the office has not documented its wire transfer procedures. The Treasurer's office should consider documenting these procedures.

Tax Roll Database Page 9

Automated testing of property record data managed by the Treasurer's Office on the Treasurer's Information System indicates that the data is complete and accurate.

General Technology Controls Page 10

The Treasurer Office Information Technology Division's (IT) controls appear to be adequate overall. However, some specific controls do not fully protect systems and data from unauthorized changes or destruction. These areas include system level privileges, direct dial-up capabilities, passwords, procedures for reviewing and removing user accounts, and key policies and procedures. The Treasurer's Office should strengthen controls over these IT areas.

Introduction

Background

The County Treasurer is an elected official established to enhance the accountability of public monies to the citizens at large. The Treasurer of Maricopa County was established on February 14, 1871 and has the duties of being the ex-officio tax collector. The Treasurer's primary responsibility is to manage the public monies and trust funds of the County and related political subdivisions. Public monies include all monies in the County treasury or coming lawfully into the Treasurer's possession or custody.

In addition to those monies required to be deposited with the Treasurer, the governing body of any political subdivision may authorize the Treasurer to invest other monies on its behalf. The Treasurer provides an accounting of public monies for numerous agencies and funds and must comply with Arizona Revised Statutes (ARS) requirements addressing public money investments. The office maintains the real estate property tax roll and provides the necessary reports of collection and delinquency. The Treasurer's operational authority is mandated through the following ARS sections:

- 11-491 Custodian of public monies.
- 11-494 Receipts for monies received; violation; classification.
- 11-604 Salary fund; sick pay fund & other funds.
- 11-605 Warrants drawn on fund.
- 15-996 Duties of Treasurer relating to school district monies.
- 35-323 Investing public monies; bidding; security and other requirements.
- 35-324 Investment of trust funds; loan of securities; sale of permanent endowment securities.
- 35-325 Servicing bank of public monies.
- 35-326 Local government investment pool.
- 35-327 Treasurer; duties; safekeeping of securities; warrants of financial officers; earnings; exemptions; responsibilities.

Mission and Goals

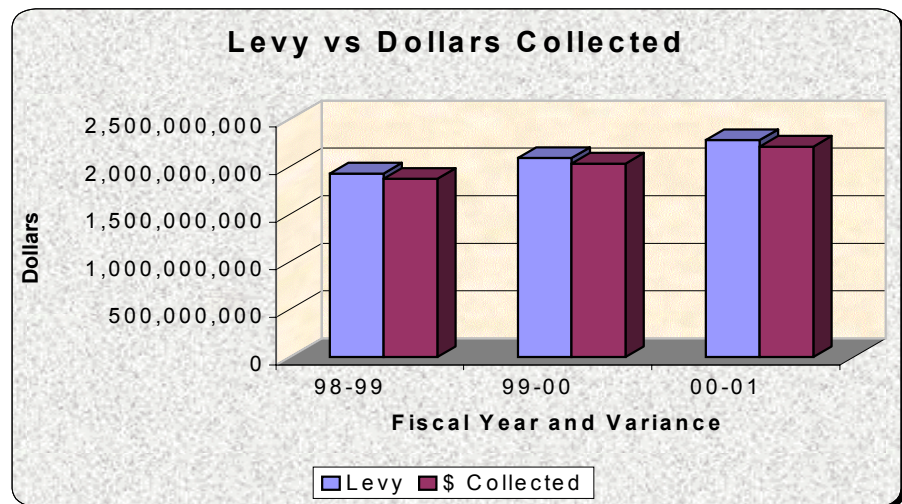
The mission of the Treasurer's Office is to provide both the administration of property taxation for the County's residents and the accounting and investment of public monies for County agencies, school districts, and other sub-political jurisdictions, as mandated by state and federal law, so that these groups can provide appropriate services to the County's residents.

The Treasurer's Office has established two goals in support of its mission:

- By FY 2005, the Treasurer will excel in customer service using technological advances to provide taxpayers with access to all tax related information via the Internet.
- By FY 2005, the Treasurer will improve and refine all tax collection and revenue apportionment functions by upgrading software related to these procedures.

Levied Taxes vs. Collections

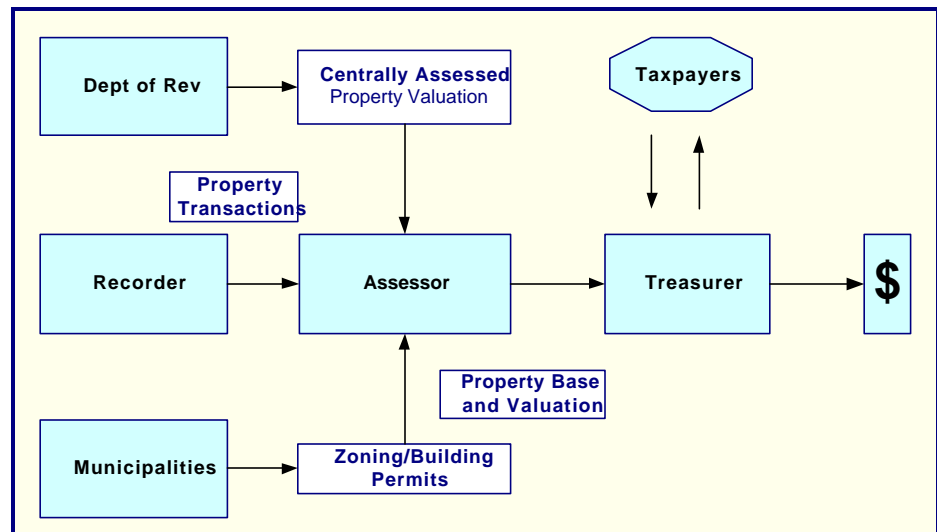
The Treasurer collects all real and personal property taxes for the State, County, incorporated cities and towns, school and special districts. The office then distributes the tax dollars to the various jurisdictions. This year tax assessments totaled \$2.1 billion. The office is responsible for tax lien sales, daily administration of sold liens, coordinating the printing and mailing of tax bills, tax roll corrections and abatements. The following chart shows levied and collected taxes during the past three fiscal years:



Property Valuation

The Maricopa County Assessor determines the valuation of property within Maricopa County for property tax purposes. The Assessor determines the valuation of all the taxable property and may be liable for all taxes that remain unassessed. ARS require the Assessor to notify property owners as to the property's full cash value and the limited value, for assessment purposes.

On or before December 1st of each year the Assessor is required to develop a complete listing of all secured and unsecured property in Maricopa County. The listing notes the property, ownership, and value. The listing is then compiled into the tax roll. The Assessor delivers the list and certified roll to the Clerk of the Board of Supervisors as required by ARS. Once approved by the Board of Supervisors, the Assessor transmits the property tax roll to the Treasurer's Office. The following graph depicts the tax roll development process:



Scope and Methodology

Our audit objectives were to determine if the Treasurer's Office:

- Invests idle public monies only in eligible investments in accordance with ARS requirements.
- Properly maintains unsecured and secured property tax data.
- Employs adequate controls over wire transfers.
- Accurately apportions Secured and Unsecured Property Tax to recipient jurisdictions.

This audit was performed in accordance with Government Auditing Standards.

Office Reported Accomplishments

The Maricopa County Treasurer's Office provided the following information for inclusion in this report.

E-Government

- Treasurer's automated paystation (Bilingual remote pay with receipt)
- Graphic presentation of tax bill distribution on the Internet
- Check imaging
- Publication of CP buyer's list on Internet
- Pay tax with credit card on the Internet (Fall 02)
- Warrant maintenance app shifted work from County Finance to origination department
- Converted personal property database from Assessor to Treasurer to conform with SB1148
- \$300,000 worth of programming accomplished in house without use of consultants
- Replaced outdated mainframe computer with state-of-the-art machine at **no cost to County general fund**

Budget

- Essentially flat-line budget for 10 years while reducing staff by one-third
- FY99/00 Fiscally Fit Award Winner. This was accomplished while workload went from 835,000 to more than 1,400,000 parcels

Legislation

- Helped pass and implement a number of bills to improve efficiency and consistency of tax administration statewide including SB1111, SB1053, SB1148, SB1040, SB1041 and HB2331

Issue 1 Tax Apportionment Payments

Summary

Our review of \$870 million (64%) apportioned by the Treasurer's Office during tax year 2001 found that the office accurately apportions collected taxes and, overall, employs effective controls over the apportionment process. Apportionment controls could also be improved with the addition of certain detailed procedures. The Treasurer's Office should expand existing internal policies and procedures.

The State and Local Government Committee of the American Institute of Certified Public Accountants (AICPA) recommends that formal policies and procedures be established to control entity operations over general receipts, disbursements, investments, and apportionments.

Examination of Apportionments

The County apportioned over \$1.3 billion during the current tax year to authorized local jurisdictions and districts. We tested apportionments for October 2001 and April 2002, representing \$870 million, or 64% of the total dollars apportioned during tax year 2001. Our testing found overall that the Treasurer's Office has developed effective controls over the apportionment process and that the office accurately apportions collected taxes.

We also found that the Treasurer's Office has not developed internal policies and procedures over:

- The scheduling or frequency of apportionment requests.
- Authorization of apportionment requests, approval thresholds, or multiple signatory requirements.
- Appropriate segregation of duties.

By developing formal guidelines for the apportionment process the Treasurer's Office could improve service to school districts and local jurisdictions, demonstrate due diligence of the office's fiduciary responsibilities, and improve internal controls over operations.

Recommendation

The Treasurer's Office should consider developing formal guidelines over the apportionment process.

Issue 2 Investments

Summary

Our review of \$845 million of Treasurer's Office investments found that the office invests public funds only in instruments that are authorized by ARS mandates. No exceptions were found.

ARS Mandate

ARS 35-323(A) directs Arizona county treasurers to invest idle public funds in eligible investments. Eligible investments are:

- Certificates of deposit.
- Interest bearing savings.
- State Treasurer's pooled investment funds.
- Obligations issued or guaranteed by the United States.
- Bonds of any county, municipal district, municipal utility, or special taxing district within the state.
- Commercial paper of prime quality rated "P1" by Moody's or rated "A1" by Standard and Poor's rating services.

Compliance Review

The Treasurer's Office investment portfolio has a total par value of \$1.82 billion for the 139 investments currently carried. We examined 68 investments representing \$845 million (46%) of the Treasurer's April 2002 portfolio.

We verified that investment instruments' maturity date, par and book values, coupon rate, and yield to maturity percentage comply with ARS requirements. We also verified the investment purchase ticket, current investment position, the Bank One security transaction advice, and the broker confirmation ticket to ensure the investment exists. The results of our testing show that the Treasurer's Office invests public funds in only allowable investment instruments mandated by ARS. No exceptions were noted.

Recommendation

None, for information only.

Issue 3 Wire Transfers

Summary

Our review of 30 Treasurer's Office wire transfers totaling \$197 million found that general controls are adequate. However, the office has not documented its wire transfer procedures. The Treasurer's office should consider documenting these procedures.

Because of the relatively high risk associated with transactions involving cash, strict internal control policies and procedures are required. The Treasurer has the responsibility to establish and enforce policies to ensure that adequate internal control exists for receiving, recording, safeguarding, and disbursing cash as prescribed in the Arizona Auditor General's Uniform Accounting Manual for Arizona County Treasures (UAMACT), §VI-C.

Wire Transfer Controls

The Treasurer's Office has not developed a set of policies and related procedures to document and control the wire transfer process. Although the office's current practices appear to be functional, a formalized set of policies and procedures would strengthen controls over the process.

Our review of 30 (\$197 million total) of 802 wire transfers, executed by the Treasurer's Office during the current fiscal year, noted that general controls are adequate. However, the Treasurer's Office has not formally documented its internal controls over wire transfers.

Recommendation

The Treasurer's Office should strengthen its internal controls over wire transfer by developing formal, written procedures.

Issue 4 Tax Roll Database

Summary

Automated testing of property record data managed by the Treasurer's Office on the Treasurer's Information System indicates that the data is complete and accurate.

ARS Requirements

ARS 42-13051 states that the "...county assessor shall identify by diligent inquiry and examination all real property in the county that is subject to taxation and that is not otherwise valued by the office as provided by law". ARS 42-16258 requires that if the county treasurer determines that any property is omitted from the roll, the treasurer shall immediately list and request the assessor to determine the valuation of the property. If the roll contains an error in the name of the person assessed or taxed, the county treasurer may change the name and collect the tax from the person who should be taxed, if that person is liable for the tax and can be identified by the treasurer.

Automated Testing of TIS Data

The Maricopa County Assessor's Office is responsible for valuing over one million parcels of real property (homes, commercial buildings and land) and personal property (secured and unsecured assets) totaling nearly \$200 billion throughout the County's 9,127 square miles.

Annually, the Treasurer's Office receives the tax roll download detailing ownership and values of all property in Maricopa County for the tax year from the Assessor's Office. Additionally, the Assessor submits weekly property record updates, consisting of newly established property records and corrections to existing records. This information is maintained on the Treasurer's Information System (TIS) and used by the Treasurer's Office to create the tax apportionment schedules and generate property tax billings.

Internal Audit used computer-assisted auditing techniques to analyze the completeness and accuracy of property records maintained by the Treasurer's Office. The Treasurer's database consisting of approximately 1.5 million records was compared to Assessor reported record modifications performed during the current tax year (approximately 288,000 records).

Our analysis of property records managed by the Treasurer's Office on TIS indicates that the TIS data is complete and accurate.

Recommendation

None, for information only.

Issue 5 General Technology Controls

Summary

The Treasurer Office Information Technology Division's (IT) controls appear to be adequate overall. However, some specific controls do not fully protect systems and data from unauthorized changes or destruction. These areas include system level privileges, direct dial-up capabilities, passwords, procedures for reviewing and removing user accounts, and key policies and procedures. The Treasurer's Office should strengthen controls over these IT areas.

Best Practices

IT best practices recommend that:

- System level privileges on the production environment should be limited to systems administration and operations personnel.
- Dial-up access to critical systems should be limited with multiple physical and logical control procedures.
- Strong controls should be enforced to ensure passwords are not compromised when passwords are used as the primary means of authenticating user access.
- User accounts that are no longer needed be removed from the system on a timely basis.
- Written policies and procedures exist to ensure consistent operation of the key information services activities and to facilitate training of new employees.

The Treasurer's Office grants system level privileges to an excessive number of users. This capability allow users to bypass security and gain access to all aspects of the system, which increases the risk that unauthorized modifications of programs or data may occur. Developers are granted the same level of access on the production system as they have on the development/testing system, even though development activities should not be occurring on the production system.

Direct Dial-up Access

The Treasurer's Office has established limited access controls over direct dial-up access to its system. Commercial users can access the system by dialing the phone number and then entering one or more generic account/password combinations. This control weakness increases the risk that unauthorized access may be gained to the system.

If the Treasurer's Office does not assign unique accounts/password combinations for each commercial account, the office limits its ability to provide additional controls (e.g., auto dial-back or security token requirements).

The Treasurer's Office does not uniformly enforce strong password controls. This control weakness increases the risk that user passwords will be compromised, resulting in unauthorized access to the system. Weak password controls are perpetuated from existing accounts to new ones because an existing user account is usually copied and modified.

Inactive Accounts

A significant number of disabled and/or inactive accounts are defined on the Treasurer's Office system. The Treasurer's Office keeps the disabled accounts on the system for audit trail purposes. However, this practice increases the risk that unauthorized system access will occur via appropriate re-setting of these disabled or inactive accounts. When the system administrator is notified of an employee termination, their account is disabled using the DISUSER flag. If the system administrator is not notified of departing employees, the account lapses into inactivity without being disabled.

The Treasurer's Office has not developed written policies and procedures for key information services activities. Formal procedures are vital to ensure consistent operations and to effectively facilitate new staff training.

Recommendation

The Treasurer's Office should:

- A. Limit system level privileges to operations, system administrators, and software managed accounts.
- B. Replace direct dial-up capability with secure Internet, RAS, or VPN access.
- C. Strengthen password controls by implementing consistent password expiration requirements (90 days or less), requiring use of both alpha and numeric characters in passwords, and establishing policies that disallow reuse of passwords.
- D. Establish procedures to periodically review and remove user accounts which are no longer necessary and require prompt notification from Human Resources when employees transfer or terminate.
- E. Establish policies and procedures for application software development, modification, and testing; evaluating and approving program development requests; and documenting and tracking changes made to hardware, operating system software, or application software.